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KIPP NEW ORLEANS, INC.
FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
KIPP New Orleans, Inc.
New Orleans, Louisiana

We have audited the accompanying Statements of Financial Position of KIPP New Orleans, Inc. (a nonprofit organization), and the related Statements of Activities and Cash Flows as of and for the years ended June 30, 2009 and 2008 and the Statement of Functional Expenses for the year ended June 30, 2009. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KIPP New Orleans, Inc. as of June 30, 2009 and 2008, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated November 25, 2009 on our consideration of KIPP New Orleans, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying combining and individual school financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of KIPP New Orleans, Inc. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Reboue & Company

November 25, 2009

KIPP NEW ORLEANS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,870,412	\$ 1,863,358
Prepaid expenses	39,164	14,221
Grants receivable	1,652,479	2,148,577
Other receivables	77,619	331,723
Other assets	31,963	18,275
Total Current Assets	<u>3,671,637</u>	<u>4,376,154</u>
Non-Current Assets:		
Property and equipment (net of accumulated depreciation)	<u>635,691</u>	<u>625,580</u>
Total Assets	<u>\$ 4,307,328</u>	<u>\$ 5,001,734</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 488,600	\$ 756,486
Due to KIPP Foundation	<u>4,436</u>	<u>74,182</u>
Total Current Liabilities	<u>493,036</u>	<u>830,668</u>
Total Liabilities	<u>493,036</u>	<u>830,668</u>
Net Assets:		
Unrestricted	3,593,469	3,749,399
Temporarily restricted	<u>220,823</u>	<u>421,667</u>
Total Net Assets	<u>3,814,292</u>	<u>4,171,066</u>
Total Liabilities and Net Assets	<u>\$ 4,307,328</u>	<u>\$ 5,001,734</u>

See accompanying notes to financial statements.

KIPP NEW ORLEANS, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2009 and 2008

	2009	2008
UNRESTRICTED NET ASSETS		
Public Support and Other Revenues		
Local per pupil aid	\$ 4,196,328	\$ 3,173,722
Federal sources	2,402,696	2,468,926
State public school funds	3,164,628	2,179,339
Donations and contributions	1,280,523	1,194,024
Other local sources	115,865	327,127
Other state funds	353,752	218,428
Total Public Support and Other Revenues	11,513,792	9,561,566
Net Assets Released from Restrictions		
Restrictions satisfied by payments	304,909	189,551
Total Support, Revenues and Reclassifications	11,818,701	9,751,117
Expenses		
Program services:		
Instructional	7,325,224	4,211,143
Supporting services:		
Management and general	4,254,250	3,504,989
Non-Instructional services:		
Other services	662,519	-
Total Expenses	12,241,993	7,716,132
Other Unrestricted Income (Expense)		
Other	267,363	39,072
Total Other Unrestricted Income (Expense)	267,363	39,072
Increase (Decrease) in Unrestricted Net Assets	(155,929)	2,074,057
TEMPORARILY RESTRICTED NET ASSETS		
Donations	104,064	388,168
Net assets released from restrictions	(304,909)	(189,551)
Increase (Decrease) in Temporarily Restricted Net Assets	(200,845)	198,617
Net assets at beginning of fiscal year	4,171,066	1,898,392
Net assets at end of fiscal year	\$ 3,814,292	\$ 4,171,066

See accompanying notes to financial statements.

KIPP NEW ORLEANS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ (356,774)	\$ 2,272,674
Depreciation expense	97,438	61,005
Gain on disposition of assets	-	(452)
(Increase) decrease in operating assets:		
Accounts/grants receivable	750,202	(1,578,447)
Prepaid expenses	(24,943)	4,964
Other assets	(13,688)	(16,068)
Increase (decrease) in operating liabilities:		
Accounts payable	(267,886)	193,639
Due to KIPP Foundation	(69,746)	54,399
	<u>114,603</u>	<u>991,714</u>
Net cash provided by operating activities:		
Cash Flows from Investing Activities:		
Purchase of property and equipment	(107,549)	(408,671)
Proceeds from disposition of asset	-	9,042
	<u>(107,549)</u>	<u>(399,629)</u>
Net cash used in investing activities		
	<u>7,054</u>	<u>592,085</u>
Net increase in cash and cash equivalents		
	<u>1,863,358</u>	<u>1,271,273</u>
Cash and Cash Equivalents, Beginning of Fiscal Year		
	<u>\$ 1,870,412</u>	<u>\$ 1,863,358</u>

See accompanying notes to financial statements.

KIPP NEW ORLEANS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2009

	<u>PROGRAM SERVICES</u>	<u>SUPPORT SERVICES</u>	<u>NON- INSTRUCTIONAL SERVICES</u>	<u>Total</u>
	<u>Instructional</u>	<u>Management And General</u>	<u>Other Services</u>	
Expenses:				
Regular education programs	\$ 5,131,772	\$ -	\$ -	\$ 5,131,772
School administration	-	1,401,337	-	1,401,337
Operation and maintenance of plant services	-	987,668	-	987,668
Special education programs	745,375	-	-	745,375
Food services	-	-	607,948	607,948
Business services	-	502,654	-	502,654
Student transportation	-	532,539	-	532,539
Central services	-	596,521	-	596,521
Instructional staff services	480,677	-	-	480,677
General administration	-	233,531	-	233,531
Pupil support services	700,836	-	-	700,836
Other special programs	250,564	-	-	250,564
Other instructional programs	16,000	-	-	16,000
Community service operations	-	-	54,571	54,571
	<u>\$ 7,325,224</u>	<u>\$ 4,254,250</u>	<u>\$ 662,519</u>	<u>\$ 12,241,993</u>

See accompanying notes to financial statements.

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2009 and 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

KIPP New Orleans, Inc. ("KIPP") was incorporated in the Spring of 2005 for the purpose of operating charter schools in New Orleans, Louisiana. KIPP was created to provide students with knowledge, skills, and character traits necessary to succeed in competitive high schools, college, and life. The State Board of Elementary and Secondary Education has granted KIPP four (4) Type 5 charters to operate KIPP Believe College Prep (previously KIPP Phillips Preparatory), KIPP McDonogh 15 School for the Creative Arts, KIPP Central City Academy, and KIPP Central City Primary. In addition, the KIPP New Orleans School Support Center ("SSC") provides support to each of the schools in the areas of development, operations, finance, academics, recruitment, and planning. All KIPP schools and the SSC are governed by the KIPP Board of Directors.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Functional Expenses

The cost of program and supporting services has been reported on a functional basis. This requires the allocation of certain costs based on total program costs and estimates made by management.

Income Tax Status

KIPP is a tax-exempt organization under Internal Revenue Code Section 501 (c) (3) and, as such, is not subject to income tax.

Public Support and Revenue

KIPP receives its support primarily from the Louisiana State Department of Education and the United States Department of Education.

Irrevocable promises to give and outright contributions are recorded as revenue on the accrual basis as they are received, and allowances are provided for promises to give estimated to be uncollectible. Promises to give and contributions are principally received from corporate, foundation, and individual donors around the United States. Both promises to give and contributions are considered available for unrestricted use unless specifically restricted by donors. Irrevocable promises to give which relate to a subsequent year are recorded as receivables and temporarily restricted net assets in the year the commitment is received. Contributions whose donor restrictions are met in the same reporting period are reported as

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2009 and 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

unrestricted support. KIPP uses the direct write-off method of writing off uncollectible receivables.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, KIPP considers all unrestricted, highly liquid investments with an initial maturity of less than three months to be cash and cash equivalents.

Basis of Presentation

KIPP follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*, which establishes external financial reporting for not-for-profit organizations, which includes three basic financial statements and the classification of resources into three separate classes of net assets, as follows:

- Unrestricted - Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets.
- Temporarily Restricted - Net assets whose use by KIPP is limited by donor-imposed stipulations that either expire by the passage of time or that can be fulfilled or removed by actions of the organization pursuant to such stipulations.
- Permanently Restricted - Net assets whose use by KIPP is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled and removed by actions of the organization.

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2009 and 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are capitalized at cost. It is KIPP's policy to capitalize expenditures for these items in excess of \$1,000. Lesser amounts are expensed as incurred. Property and equipment are being depreciated over their estimated useful lives using the straight-line method using the following lives:

Transportation equipment	5 years
Furniture and fixtures	5 - 7 years
Machinery and equipment	5 - 10 years
Leasehold improvements	10 years

Subsequent Events

Subsequent events have been evaluated through November 25, 2009, the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements presentation to correspond to the current year's format. Total net assets and changes in net assets are unchanged due to these reclassifications.

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS

At June 30, 2009 and 2008, cash and cash equivalents consisted of deposits with financial institutions with carrying balances of \$1,870,412 and \$1,863,358, respectively.

At June 30, 2009 and 2008, KIPP did not hold any investments.

Under State law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or pledged securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At June 30, 2009 and 2008, KIPP's deposits (bank balances) totaled \$1,675,418 and \$176,675, respectively. These deposits are secured from risk by \$250,000 of federal deposit insurance at June 30, 2009 and \$100,000 of federal deposit insurance at June 30, 2008. The balances of \$0 and \$76,765 as of June 30, 2009 and 2008, respectively, were unsecured and uninsured.

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2009 and 2008

NOTE C - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Due to/from other funds at June 30, 2009 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
KIPP Believe	School Support Center	\$ 1,311
KIPP McDonogh 15	KIPP Believe	323,541
KIPP McDonogh 15	KIPP School Support Center	3,450
KIPP McDonogh 15	KIPP Central City Academy	20
KIPP McDonogh 15	KIPP Central City Primary	20
School Support Center	KIPP McDonogh 15	31,412
School Support Center	KIPP Believe	8,026
School Support Center	KIPP Central City Academy	144,256
School Support Center	KIPP Central City Primary	165,000
KIPP Central City Academy	KIPP Believe	12,852
KIPP Central City Academy	School Support Center	2,006
KIPP Central City Primary	KIPP Central City Academy	<u>5,675</u>
 Total		 <u>\$ 697,569</u>

The above due to/from other funds were short-term receivables or payables resulting from the normal course of KIPP's operations.

Interfund transfers during the year ended June 30, 2009 were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
School Support Center	KIPP McDonogh 15	\$ 246,628
School Support Center	KIPP Believe	94,760
School Support Center	KIPP Central City Academy	50,774
KIPP Believe	School Support Center	3,027
KIPP McDonogh 15	School Support Center	5,941
KIPP Central City Academy	School Support Center	2,681
KIPP Central City Primary	School Support Center	<u>12,681</u>
 Total		 <u>\$ 416,492</u>

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2009 and 2008

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Furniture, fixtures, and equipment	\$259,578	\$ 243,339
Leasehold improvements	548,998	457,688
Less accumulated depreciation	<u>(172,885)</u>	<u>(75,447)</u>
Property and equipment, net	<u>\$635,691</u>	<u>\$ 625,580</u>

Depreciation expense for KIPP for the years ended June 30, 2009 and 2008 was \$97,438 and \$61,005, respectively.

During the years ended June 30, 2009 and 2008, KIPP acquired \$107,549 and \$408,671 in property and equipment, respectively.

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2009 and 2008 were available for the following purposes:

	<u>2009</u>	<u>2008</u>
KIPP to College Program	\$ 118,903	\$ 333,333
Student Scholarships	71,500	65,000
Business Planning Grant	22,500	-
Facility repairs and renovations	<u>7,920</u>	<u>23,334</u>
	<u>\$ 220,823</u>	<u>\$ 421,667</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors during the year in the amounts of \$304,909 and \$189,551 for the years ended June 30, 2009 and 2008, respectively.

NOTE F - RETIREMENT PLANS

Substantially all employees of KIPP are members of either a statewide retirement system or an employer sponsored 403(b) retirement plan. Employees of McDonogh 15 School for the Creative Arts are members of the Teachers' Retirement System of Louisiana ("TRSL"). Employees of KIPP Believe College Preparatory School and KIPP Central City Academy are participants in the employer sponsored 403(b) plan. Pertinent information relative to each plan follows:

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2009 and 2008

NOTE F - RETIREMENT SYSTEMS (CONTINUED)

Teachers' Retirement System of Louisiana (TRSL)

Plan Description:

The TRSL consists of three membership plans: Regular Plan, Plan A, and Plan B. The TRSL provides retirement benefits as well as disability and survivor benefits. Ten years of service credit is required to become vested for retirement benefits and five years to become vested for disability and survivor benefits. Benefits are established and amended by state statute. The TRSL issues a publicly available financial report and includes financial statements and required supplementary information for the TRSL. That report may be obtained by writing to the Teachers' Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, or by calling (225) 925-6446.

Funding Policy:

Plan members are required to contribute 8.0 percent, 9.1 percent, and 5.0 percent of their annual covered salary for the Regular Plan, Plan A, and Plan B, respectively. KIPP is required to contribute at an actuarially determined rate. The current rate is 16.6 percent of annual covered payroll for all three membership plans. Member contributions and employer's contributions for the TRSL are established by state law and rates are established by the Public Retirement Systems' Actuarial Committee. KIPP's employer contribution for the TRSL, as provided by state law, is funded by the State of Louisiana through annual appropriations and by remittance from KIPP. KIPP's contributions to the TRSL for the years ending June 30, 2009 and 2008 were \$434,147 and \$308,358, respectively, which were equal to the required contributions for each year.

403(b) Plan

Plan Description:

KIPP Believe College Preparatory School and KIPP Central City Academy have a 403(b) deferred compensation plan covering substantially all employees. Covered employees may elect to contribute a portion of their salaries as allowable. KIPP Believe elected to contribute 5% of covered employees' salaries as contributions. KIPP Believe's contributions were \$65,460 and \$31,025 for the years ended June 30, 2009 and 2008, respectively.

KIPP NEW ORLEANS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2009 and 2008

NOTE G - COMPENSATED ABSENCES

School-Based Employees:

All school-based employees are granted ten (10) paid time off (PTO) days at the beginning of each year. These days are to be used in case of illness or any other reason an employee needs a day off. If an employee starts after the beginning of the school year, personal leave/sick days are pro-rated. Unused days will not roll forward at the end of the year (June 30) and may not be redeemed for additional compensation at the end of the year.

Funding Policy:

School Support Center staff work throughout the year. All full time KIPP New Orleans SSC employees earn a minimum total of eighteen (18) days PTO (a combination of vacation time, sick time, and personal holiday time) per year.

NOTE H - CONTINGENCIES

At June 30, 2009 and 2008, KIPP was not a defendant or co-defendant in any lawsuits arising from the normal course of operations.

NOTE I – NEW SCHOOLS AND INITIATIVES

During fiscal year 2009, the State Board of Elementary and Secondary Education approved KIPP for two (2) new Type 5 charter schools. KIPP Renaissance High School will be designed to enroll approximately 600 students at full capacity ranging in grades 9th through 12th. The anticipated first year budget for KIPP Renaissance High School is approximately \$2.5 million in revenues and \$2.4 million in expenditures. KIPP New Orleans Leadership Academy (“KNOLA”) will be designed to enroll approximately 800 students ranging in grades kindergarten through 8th. The anticipated first year budget for KIPP KNOLA is approximately \$2.6 million in revenues and \$2.3 million in expenditures and will serve 5th graders in its initial year of operation. Both schools are planned to open during the Summer of 2010.

SUPPLEMENTAL INFORMATION

KIPP NEW ORLEANS, INC.
STATEMENTS OF ACTIVITIES BY SCHOOL
FOR THE YEAR ENDED JUNE 30, 2009 (with comparative totals for 2008)

	2009					2008	
	McDonogh 15 School for the Creative Arts	Believe College Preparatory School	Central City Academy	Central City Primary	School Support Center	Interfund Eliminations	Total
UNRESTRICTED NET ASSETS							
Public Support and Other Revenues							
Local per pupil aid	\$ 2,001,076	\$ 1,091,883	\$ 716,579	\$ 386,790	\$ -	\$ -	\$ 4,196,328
Federal sources	1,163,490	565,544	408,403	265,259	-	-	2,402,696
State public school funds	1,432,490	827,616	609,155	275,367	-	-	3,164,628
Donations and contributions	2,951	2,885	87,619	329,623	857,445	-	1,280,523
Other local sources	54,265	23,059	19,440	2,504	16,597	-	115,865
Other state funds	296,788	27,537	18,833	10,594	-	-	353,752
Transfers	5,941	3,027	2,681	12,681	392,162	(416,492)	-
Total Public Support and Other Revenues	4,977,001	2,541,551	1,862,710	1,282,818	1,266,204	(416,492)	11,513,792
Net Assets Released from Restrictions							
Restrictions satisfied by payments	15,414	-	-	-	289,495	-	304,909
Total Support, Revenues and Reclassifications	4,992,415	2,541,551	1,862,710	1,282,818	1,555,699	(416,492)	11,818,701
Expenses							
Program services:							
Instructional	3,247,079	1,861,194	1,140,394	809,731	266,826	-	7,325,224
Supporting services:							
Management and general	1,411,601	935,437	494,613	382,465	1,030,134	-	4,254,250
Non-instructional services:							
Other services	309,927	192,900	98,725	60,967	-	-	662,519
Total Expenses	4,968,607	2,989,531	1,733,732	1,253,163	1,296,960	-	12,241,993
Other unrestricted income (expense)							
Transfers out	(246,628)	(94,760)	(50,774)	-	(24,330)	416,492	-
Other	187,867	78,840	-	656	-	-	267,363
Total Other Unrestricted Income (Expense)	(58,761)	(15,920)	(50,774)	656	(24,330)	416,492	39,072
Increase/(Decrease) In Unrestricted Net Assets	(34,953)	(463,900)	78,204	30,311	234,409	-	(155,929)
TEMPORARILY RESTRICTED NET ASSETS							
Donations	-	-	-	-	104,064	-	388,168
Net assets released from restrictions	(15,414)	-	-	-	(289,495)	-	(304,909)
Increase in Temporarily Restricted Net Assets	(15,414)	-	-	-	(185,431)	-	(200,845)
Net assets at beginning of fiscal year	2,204,856	1,170,296	199,728	(7,112)	603,298	-	4,171,066
Net assets at end of fiscal year	\$ 2,154,489	\$ 706,396	\$ 277,932	\$ 23,199	\$ 652,276	\$ -	\$ 3,814,292

See accompanying notes to financial statements.

PERFORMANCE STATISTICAL DATA

REBOWE & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors of
KIPP New Orleans, Inc.
New Orleans, Louisiana

We have performed the procedures included in the *Louisiana Governmental Audit Guide* and enumerated below, which were agreed to by the management of KIPP New Orleans, Inc. ("KIPP") and the Legislative Auditor, State of Louisiana, solely to assist the users in evaluating management's assertions about the performance and statistical data accompanying the annual financial statements of KIPP and to determine whether the specified schedules are free of obvious errors and omissions as provided by the Board of Elementary and Secondary Education (BESE) Bulletin. The School System is responsible for the performance and statistical data. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

General Fund Instructional and Support Expenditures and Certain Local Revenue Sources (Schedule K-1)

1. We selected a random sample of 25 transactions and reviewed supporting documentation to determine if the sampled expenditures/revenues are classified correctly and are reported in the proper amounts for each of the following amounts reported on the schedule:
 - Total General Fund Instructional Expenditures,
 - Total General Fund Equipment Expenditures,
 - Total Local Taxation Revenue,
 - Total Local Earnings on Investment in Real Property,
 - Total State Revenue in Lieu of Taxes,
 - Nonpublic Textbook Revenue, and
 - Nonpublic Transportation Revenue.

Education Levels of Public School Staff (Schedule K-2)

2. We reconciled the total number of full-time classroom teachers per the schedule “Experience of Public Principals, Assistant Principals, and Full-time Classroom Teachers” (Schedule K-4) to the combined total number of full-time classroom teachers per this schedule and to school board supporting payroll records as of October 1, 2008.
3. We reconciled the combined total of principals and assistant principals per the schedule “Experience of Public Principals, Assistant Principals, and Full-time Classroom Teachers” (Schedule K-4) to the combined total of principals and assistant principals per this schedule.
4. We obtained a list of principals, assistant principals, and full-time teachers by classification as of October 1, 2008 and as reported on the schedule. We traced a random sample of 25 teachers to the individual’s personnel file and determined that the individual’s education level was properly classified on the schedule.

Number and Type of Public Schools (Schedule K-3)

5. We obtained a list of schools by type as reported on the schedule. We compared the list to the schools and grade levels as reported on the Title 1 Grants to Local Educational Agencies (CFDA 84.010) application and/or the National School Lunch Program (CFDA 10.555) application.

Experience of Public Principals, Assistant Principals, and Full-time Classroom Teachers (Schedule K-4)

6. We obtained a list of principals, assistant principals, and full-time teachers by classification as of October 1, 2008 and as reported on the schedule and traced the same sample used in procedure 4 to the individual’s personnel file and determined that the individual’s experience was properly classified on the schedule.

Public Staff Data (Schedule K-5)

7. We obtained a list of all classroom teachers including their base salary, extra compensation, and ROTC or rehired retiree status as well as full-time equivalent as reported on the schedule and traced a random sample of 25 teachers to the individual’s personnel file and determined that the individual’s salary, extra compensation, and full-time equivalents were properly included on the schedule.
8. We recalculated the average salaries and full-time equivalents reported in the schedule.

Class Size Characteristics (Schedule K-6)

9. We obtained a list of classes by school, school type, and class size as reported on the schedule and reconciled school type classifications to Schedule K-3 data, as obtained in procedure 5. We then traced a random sample of 10 classes to the October 1, 2008 roll books for those classes and determined that the class was properly classified on the schedule.

Louisiana Educational Assessment Program (LEAP) for the 21st Century (Schedule K-7)

10. We obtained test scores as provided by the testing authority and reconciled scores as reported by the testing authority to scores reported in the schedule by the School System.

Integrated Louisiana Educational Assessment Program (iLEAP) (Schedule K-9)

11. We obtained test scores as provided by the testing authority and reconciled the scores as reported by the testing authority to the scores reported in the schedule by the School System.

No exceptions were found as a result of applying the above procedures.

We were not engaged to and did not perform an examination, the objective of which would be the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of KIPP New Orleans, the Louisiana Department of Education, the Louisiana Legislature, and the Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Reboue & Company

November 25, 2009

**KIPP NEW ORLEANS, INC.
NEW ORLEANS, LOUISIANA**

Schedule K-1

**General Fund Instructional and Support Expenditures
Certain Local Revenue Sources
For the Year Ended June 30, 2009**

General Fund Instructional and Equipment Expenditures

General Fund Instructional Expenditures:

Teacher and Student Interaction Activities:

Classroom Teacher Salaries	\$ 3,101,876	
Other Instructional Staff Activities	84,627	
Instructional Staff Employee Benefits	720,399	
Purchased Professional and Technical Services	31,439	
Instructional Materials and Supplies	166,064	
Less: Instructional Equipment	-	
Total Teacher and Student Interaction Activities		\$ 4,104,405

Other Instructional Activities 3,936

Pupil Support Activities	\$ 273,257	
Less: Equipment for Pupil Support Activities	-	
Net Pupil Support Activities		273,257

Instructional Staff Services	\$ 135,505	
Less: Equipment for Instructional Staff Services	-	
Net Instructional Staff Services		135,505

School Administration	\$ 1,095,747	
Less: Equipment for School Administration	-	
Net School Administration		1,095,747

Total General Fund Expenditures \$ 5,612,850

Total General Fund Equipment Expenditures \$ -

Certain Local Revenue Sources:

Note: KIPP New Orleans, Inc. receives local revenues from the Orleans Parish School Board which is passed through the Recovery School District. KIPP does not receive a detailed schedule of the source of these revenues. This section is not applicable to charter schools under the Recovery School District.

**KIPP NEW ORLEANS, INC.
NEW ORLEANS, LOUISIANA**

Schedule K-2

**Education Level of Public Principals, Assistant Principals, and Full-Time Classroom Teachers
As of October 1, 2008**

Category	Full-time Classroom Teachers				Principals and Assistant Principals			
	Certificated		Uncertificated		Certificated		Uncertificated	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Less than a Bachelor's Degree	-	-	-	-	-	-	-	-
Bachelor's Degree	29	81%	16	52%	7	88%	-	-
Master's Degree	7	19%	13	42%	1	12%	-	-
Master's Degree +30	-	-	2	6%	-	-	-	-
Specialist in Education	-	-	-	-	-	-	-	-
Ph. D. or Ed. D.	-	-	-	-	-	-	-	-
Total	36	100%	31	100%	8	100%	-	-

**Number and Type of Public Schools
For the Year Ended June 30, 2009**

Type	2008
	Number
Elementary	1
Middle/Jr. High	2
Secondary	-
Combination	1
Total	4

Note: Schools opened or closed during the fiscal year are included in this schedule.

**KIPP NEW ORLEANS, INC.
NEW ORLEANS, LOUISIANA**

Schedule K-4

**Experience of Public Principals, Assistant Principals, and Full-Time Classroom Teachers
As of October 1, 2008**

	0-1 Yr.	2-3 Yrs.	4-10 Yrs.	11-14 Yrs.	15-19 Yrs.	20-24 Yrs.	25+ Yrs.	Total
Assistant Principals	-	3	-	-	-	-	-	3
Classroom Teachers	16	22	27	2	-	-	-	67
Principals	2	-	2	-	1	-	-	5
Total	18	25	29	2	1	-	-	75

**KIPP NEW ORLEANS, INC.
NEW ORLEANS, LOUISIANA**

Schedule K-5

**Public School Staff Data
For the Year Ended June 30, 2009**

2008	All Classroom Teachers	Classroom Teachers Excluding ROTC And Rehired Retirees
Average Classroom Teachers' Salary Including Extra Compensation	\$46,563	\$46,563
Average Classroom Teacher's Salary Excluding Extra Compensation	\$46,563	\$46,563
Number of Teacher Full-time Equivalents (FTEs) used in Computation of Average Salaries	73	73

Note: Figures reported include all sources of funding (i.e. federal, state and local) but exclude employee benefits. Generally, retired teachers rehired to teach receive less compensation than non-retired teachers and ROTC teachers receive more compensation because of a federal supplement. Therefore, these teachers are excluded from the computation in the last column. This schedule excludes day-to-day substitutes and temporary employees.

**KIPP NEW ORLEANS, INC.
NEW ORLEANS, LOUISIANA**

Schedule K-6

**Class Size Characteristics
As of October 1, 2008**

School Type	Class Size Range							
	1 - 20		21 - 26		27 - 33		34+	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number
Elementary	18%	30	47%	77	29%	47	6%	10
Elementary Activity Classes	8%	2	56%	14	36%	9	-	-
Middle/Jr. High	48%	57	35%	42	17%	20	-	-
Middle/Jr. High Activity Classes	6%	1	44%	7	50%	8	-	-
High	-	-	-	-	-	-	-	-
High Activity Classes	-	-	-	-	-	-	-	-
Combination	-	-	-	-	-	-	-	-
Combination Activity Classes	-	-	-	-	-	-	-	-

Note: The Board of Elementary and Secondary Education has set specific limits on the maximum size of classes at various grade levels. The maximum enrollment in grades K-3 is 26 students and maximum enrollment in grades 4-12 is 33 students. These limits do not apply to activity classes such as physical education, chorus, band, and other classes without maximum enrollment standards. Therefore, these classes are included only as separate line items.

Louisiana Educational Assessment Program (LEAP) for the 21st Century
For the Year Ended June 30, 2009

District Achievement Level Results	English						Mathematics						Science						Social Studies											
	2009		2007		2008		2009		2007		2008		2009		2007		2008		2009		2007		2008		2009					
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent				
Grade 4																														
Advanced	0%	1	1%	1	2%	1	1%	1	4%	2	4%	1	1%	1	2%	2	2%	1	2%	2	12%	1	2%	1	0%	0	1%	1	1%	2
Mastery	7%	12	11%	9	20%	7	9%	7	10%	7	16%	7	5%	4	7%	8	7%	5	12%	5	12%	5	5%	4	3%	4	6%	6	6%	7
Basic	33%	48	44%	15	33%	40	50%	40	52%	18	40%	29	30%	29	29%	31	29%	16	37%	16	37%	16	39%	42	39%	42	39%	42	39%	29
Approaching Basic	20%	31	28%	17	38%	23	29%	23	30%	15	33%	13	41%	33	41%	45	40%	17	40%	17	40%	17	29%	31	29%	31	29%	31	29%	5
Unsatisfactory	18%	23	17%	17	16%	3	11%	9	14%	3	7%	3	18%	13	18%	23	21%	4	9%	4	9%	4	28%	22	28%	22	28%	22	25%	2
Total	80	100%	109	100%	45	100%	80	100%	109	100%	45	100%	80	100%	109	100%	45	100%	80	100%	109	100%	45	100%	80	100%	109	100%	45	100%
Grade 8																														
Advanced	1%	3%	2	8%	3	13%	2	5%	3	12%	3	12%	2	5%	3	12%	3	12%	2	5%	3	12%	3	12%	2	5%	3	12%	3	12%
Mastery	4%	10%	3	13%	5	21%	2	5%	1	3%	3	13%	9	22%	2	8%	6	23%	6	23%	2	8%	6	23%	6	15%	8	33%	1	4%
Basic	23%	56%	15	62%	8	33%	31	78%	14	48%	13	54%	14	34%	12	50%	12	50%	12	50%	7	29%	23	61%	14	59%	14	59%	9	38%
Approaching Basic	11%	28%	3	13%	7	29%	4	10%	8	28%	4	17%	13	33%	5	21%	10	42%	5	21%	10	42%	8	20%	1	4%	1	4%	6	23%
Unsatisfactory	1%	3%	1	4%	4	17%	1	3%	6	21%	1	4%	3	7%	1	4%	3	12%	1	4%	3	12%	2	5%	1	4%	1	4%	8	33%
Total	40	100%	24	100%	24	100%	40	100%	29	100%	24	100%	41	100%	24	100%	41	100%	24	100%	24	100%	41	100%	24	100%	24	100%	24	100%

KIPP NEW ORLEANS, INC.
NEW ORLEANS, LOUISIANA

Integrated Louisiana Educational Assessment Program (ILEAP)
For the Years Ended June 30, 2008

District Achievement Level Results	English						Mathematics						Science						Social Studies											
	2009		2008		2007		2009		2008		2007		2009		2008		2007		2009		2008		2007							
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent						
Grade 5																														
Advanced	1	2%	1	2%	2	4%	2	4%	3	6%	3	6%	-	0%	1	2%	2	4%	-	0%	1	2%	1	2%	1	2%	1	2%		
Mastery	8	17%	6	12%	6	12%	7	15%	3	6%	3	6%	4	8%	4	8%	2	4%	4	8%	2	4%	7	14%	7	14%	5	10%		
Basic	20	42%	19	38%	16	33%	25	52%	22	44%	26	53%	23	48%	22	44%	18	37%	22	44%	22	46%	25	50%	23	47%	23	47%		
Approaching Basic	11	23%	17	34%	18	37%	9	19%	16	32%	11	23%	16	33%	12	24%	18	37%	10	21%	13	26%	13	26%	14	29%	14	29%		
Unsatisfactory	8	17%	7	14%	7	14%	5	10%	6	12%	5	10%	4	8%	11	22%	9	18%	5	10%	4	8%	4	8%	6	12%	4	8%		
Total	48	100%	50	100%	49	100%	48	100%	50	100%	49	100%	48	100%	50	100%	49	100%	48	100%	50	100%	48	100%	50	100%	49	100%		

District Achievement Level Results	English						Mathematics						Science						Social Studies											
	2009		2008		2007		2009		2008		2007		2009		2008		2007		2009		2008		2007							
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent						
Grade 5																														
Advanced	1	1%	4	3%	3	2%	5	3%	2	1%	5	4%	4	2%	1	1%	2	1%	4	2%	5	3%	3	2%	3	2%	3	2%		
Mastery	18	10%	19	12%	12	9%	11	6%	16	10%	12	9%	7	4%	13	10%	11	9%	7	4%	11	9%	24	16%	16	11%	16	11%		
Basic	85	43%	68	44%	69	47%	88	49%	66	43%	58	41%	61	33%	53	34%	31	23%	61	23%	107	57%	77	50%	66	48%	66	48%		
Approaching Basic	31	27%	40	26%	33	24%	43	23%	41	27%	31	22%	71	38%	53	34%	51	36%	29	16%	28	18%	28	18%	31	22%	31	22%		
Unsatisfactory	32	17%	23	15%	23	16%	40	21%	29	19%	34	24%	44	24%	32	21%	32	24%	26	14%	20	13%	24	17%	24	17%	24	17%		
Total	187	100%	154	100%	140	100%	187	100%	154	100%	140	100%	187	100%	154	100%	140	100%	187	100%	154	100%	140	100%	154	100%	140	100%		

District Achievement Level Results	English						Mathematics						Science						Social Studies											
	2009		2008		2007		2009		2008		2007		2009		2008		2007		2009		2008		2007							
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent						
Grade 6																														
Advanced	7	3%	3	2%	-	0%	9	4%	6	5%	-	0%	4	2%	1	1%	-	0%	13	6%	19	14%	-	0%	-	0%	-	0%		
Mastery	23	11%	20	15%	1	2%	28	13%	16	12%	5	11%	20	9%	12	9%	5	11%	30	14%	27	20%	3	6%	3	6%	3	6%		
Basic	126	58%	88	67%	25	53%	127	58%	87	65%	28	59%	99	45%	57	42%	43	42%	119	55%	67	50%	19	41%	19	41%	19	41%		
Approaching Basic	44	20%	15	11%	13	28%	31	14%	18	14%	6	13%	74	34%	45	34%	17	17%	37	17%	15	12%	15	32%	15	32%	15	32%		
Unsatisfactory	18	8%	7	5%	8	17%	23	11%	6	4%	8	17%	21	10%	18	14%	5	11%	19	9%	5	4%	10	21%	10	21%	10	21%		
Total	218	100%	133	100%	47	100%	218	100%	133	100%	47	100%	218	100%	133	100%	47	100%	218	100%	133	100%	47	100%	133	100%	47	100%		

District Achievement Level Results	English						Mathematics						Science						Social Studies											
	2009		2008		2007		2009		2008		2007		2009		2008		2007		2009		2008		2007							
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent						
Grade 7																														
Advanced	5	4%	1	2%	-	0%	7	3%	-	0%	2	7%	6	5%	1	2%	-	0%	26	20%	2	4%	-	0%	-	0%	-	0%		
Mastery	19	15%	2	4%	2	7%	29	23%	1	2%	4	14%	27	21%	6	13%	7	25%	47	37%	11	25%	4	14%	4	14%	4	14%		
Basic	71	55%	18	40%	17	61%	72	56%	28	63%	13	47%	61	48%	28	63%	13	46%	46	36%	28	63%	15	54%	15	54%	15	54%		
Approaching Basic	28	22%	21	47%	2	7%	17	13%	10	22%	3	11%	25	20%	9	20%	5	18%	7	5%	2	4%	4	14%	4	14%	4	14%		
Unsatisfactory	5	4%	3	7%	7	25%	3	2%	6	13%	6	21%	9	7%	1	2%	3	11%	2	2%	2	4%	5	18%	5	18%	5	18%		
Total	128	100%	43	100%	28	100%	128	100%	43	100%	28	100%	128	100%	43	100%	28	100%	128	100%	43	100%	28	100%	43	100%	28	100%		

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors of
KIPP New Orleans, Inc.
New Orleans, Louisiana

We have performed the procedures described below, which were agreed to by the management of KIPP New Orleans, Inc. ("KIPP"), the Orleans Parish School Board (OPSB) and the Legislative Auditor, State of Louisiana, solely to assist the users in evaluating management's assertions about the use of Dedicated Millages and to determine whether the specified data is free of obvious errors and omissions as provided by KIPP. The School System is responsible for documenting the use of Dedicated Millages. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We obtained a schedule from KIPP of its expenditures for each purpose for the fiscal year.

Dedicated Millage:

Purpose A - School Books, Materials, and Supplies.

Purpose B - Early Childhood, Discipline, and Dropout Programs.

Purpose C - Employee Salary, Benefits, and Incentives.

Purpose D - Air Conditioning, Asbestos Removal, and Facilities.

2. We traced the expenditures to the General Ledger.

No exceptions were found as a result of applying the above procedures.

We were not engaged to and did not perform an examination, the objective of which would be the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of KIPP New Orleans, the Louisiana Department of Education, the Louisiana Legislature, and the Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Reboue & Company

November 25, 2009

**OMB CIRCULAR A-133 COMPLIANCE AND
GOVERNMENT AUDITING STANDARDS REPORTS**

REBOWE & COMPANY

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
KIPP New Orleans, Inc.
New Orleans, Louisiana

We have audited the Statements of Financial Position and the related Statements of Activities and Cash Flows of KIPP New Orleans, Inc. ("KIPP"), as of and for the years ended June 30, 2009 and 2008, and the Statement of Functional Expenses for the year ended June 30, 2009, which collectively comprise KIPP's basic financial statements, and have issued our report thereon dated November 25, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered KIPP's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the KIPP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KIPP's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as described below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects KIPP's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of KIPP's financial statements that is more than inconsequential will not be prevented or detected by KIPP's internal control. We consider deficiency 09-01 as described in the accompanying schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by KIPP's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KIPP's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

KIPP's response to the finding identified in our audit is described in the accompanying Corrective Action Plan for Current Year Audit Findings and Questioned Costs. We did not audit KIPP's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, the Legislative Auditor of the State of Louisiana, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Reboue & Company

November 25, 2009

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
KIPP New Orleans, Inc.
New Orleans, Louisiana

Compliance

We have audited the compliance of KIPP New Orleans, Inc. ("KIPP") (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. KIPP's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of KIPP's management. Our responsibility is to express an opinion on KIPP's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about KIPP's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of KIPP's compliance with those requirements.

In our opinion, KIPP complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of KIPP is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered KIPP's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of KIPP's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. The deficiency in internal control over compliance is not considered to be a material weakness.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

KIPP's response to the finding identified in our audit is described in the accompanying Corrective Action Plan for Current Year Audit Findings and Questioned Costs. We did not audit KIPP's response and, accordingly, express no opinion on it.

This report is intended solely for the information of management, the Board of Directors, the Legislative Auditor of the State of Louisiana, and federal awarding agencies and pass-through entities and is not intended to be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Rebowe & Company

November 25, 2009

KIPP NEW ORLEANS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2009

<u>Federal Grantor/ Program Title/ Pass-Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Revenues</u>
<u>U.S. Department of Education:</u>			
<i>Passed-through Louisiana Department of Education:</i>			
Title I Grants to Local Educational Agencies (LEAs)*	84.010	\$ 940,620	\$ 940,620
Title II Improving Teacher Quality State Grants	84.367	129,700	134,615
Title IV Safe and Drug-Free Schools and Communities - State Grants	84.186	273	272
Title V Part A - State Grants for Innovative Programs	84.298	423	423
Title V Part B - Charter Schools (CSP)*	84.282	457,294	457,268
Special Education - Grants to States (IDEA, Part B)	84.027	193,252	193,252
Special Education - Preschool Grants (IDEA Preschool)	84.173	-	-
Katrina Foreign Contributions	84.940	64,081	57,374
Hurricane Education Recovery Act Programs			
Hurricane Educator Assistance Program (HEAP)	84.938K	-	-
<i>Passed-through Louisiana Department of Education, Recovery School District:</i>			
Hurricane Education Recovery Act Programs			
Immediate Aid to Restart School Operations	84.938A	-	38,459
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>1,785,643</u>	<u>1,822,283</u>

KIPP NEW ORLEANS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
For the Year Ended June 30, 2009

<u>Federal Grantor/ Program Title/ Pass-Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Revenues</u>
<u>U.S. Department of Agriculture:</u>			
<i>Passed-through Louisiana Department of Education</i>			
National School Lunch Program	10.555	\$ 569,666	\$ 580,413
TOTAL U.S. DEPARTMENT OF AGRICULTURE		569,666	580,413
TOTAL FEDERAL ASSISTANCE		\$ 2,355,309	\$ 2,402,696

*Identified as a major program.

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

KIPP NEW ORLEANS, INC.
NOTE TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
Year Ended June 30, 2009

NOTE A - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

KIPP NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

A. SUMMARY OF AUDITOR'S RESULTS

- The auditor's report expresses an unqualified opinion on the financial statements of KIPP New Orleans, Inc. ("KIPP").
- One (1) control deficiency disclosed during the audit of the financial statements is reported in the *Report on Internal Control Over Financial Reporting* and on *Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards*, identified as Finding 09-01. This condition is considered to be a significant deficiency.
- No instances of noncompliance material to the financial statements of KIPP were disclosed and identified during the audit.
- One (1) significant deficiency relating to the audit of the major federal award programs is reported in the *Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133*. It is not considered to be material weakness. The significant deficiency is identified as Finding 09-02.
- The *Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133* expresses an unqualified opinion on all major federal programs.
- There were no findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- A management letter was not issued for the year ended June 30, 2009.
- The programs tested as major programs for the year ended June 30, 2009 were:

<u>Program Title</u>	<u>CFDA No.</u>
Title I Grants to Local Educational Agencies	84.010
Title V Part B Charter Schools Program	84.282

- The threshold for distinguishing between Type A and Type B programs was \$300,000.
- KIPP did not qualify as a low-risk auditee.

KIPP NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2009

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 09-01 Documentation of Expenses

Condition:

KIPP was unable to provide sufficient supporting documentation for several requested expenses during the course of our audit. As a result, we were not able to determine if the expenses were made in accordance with KIPP's policies and procedures.

Criteria:

Proper documentation is required to be maintained for all expenses in order to verify that the expenses appropriate and in accordance with its policies and procedures. KIPP should adhere to its purchasing and procurement policy and procedures.

Effect:

Expenses were made without proper approval and could have been used for expenses that are not in allowed in accordance with KIPP's policies and procedures.

Cause:

Non-compliance with established policies and procedures in addition to inadequate oversight of purchasing transactions contributed to the lack of supporting documentation for certain expenses.

Recommendation:

We recommend that KIPP provide adequate training to its employees on proper documentation for all expenses and also provide for adequate internal review of required documentation. KIPP should adhere to its established purchasing policy and procedures.

Response:

See Management's Corrective Action Plan for their response.

KIPP NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2009

C. FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL AWARD PROGRAMS

Finding 09-02 Documentation of Expenditures of Federal Awards

Condition:

KIPP was unable to provide sufficient supporting documentation for several requested expenditures of Federal awards during the course of our audit. As a result, we were not able to determine if the expenditures and related activities were allowable in accordance with the grant objectives and *OMB Circular A-133*.

Criteria:

Proper documentation is required to be maintained for all Federal programs in order to verify that the expenditures and related activities are allowable. In addition, KIPP should adhere to its own purchasing and procurement policy and procedures.

Effect:

Federal funds were used for expenditures without proper approval and could have been used for expenditures that are not allowable.

Cause:

Non-compliance with established policies and procedures in addition to inadequate oversight of purchasing transactions on Federal award programs contributed to the lack of supporting documentation for certain expenditures.

Recommendation:

We recommend that KIPP provide adequate training to its employees on proper documentation for all Federal programs and also provide for adequate internal review of required documentation. KIPP should adhere to its established purchasing policy and procedures.

Response:

See Management's Corrective Action Plan for their response.

KIPP NEW ORLEANS, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
AND QUESTIONED COSTS
For the Year Ended June 30, 2009

SECTION I - FINDINGS RELATED TO THE FINANCIAL STATEMENTS COMPLIANCE

Finding 08-01 Deposit Collateral

Current Year Status – Resolved.

Finding 08-02 Time and Effort Documentation

Current Year Status – Resolved.

Finding 08-03 Documentation of Expenditures of Federal Awards

Current Year Status – Repeat Finding; See Schedule of Findings and Questioned Costs Finding 09-01.

Finding 08-04 Purchasing and Procurement

Current Year Status – Resolved.

Finding 08-05 Net Assets

Current Year Status – Resolved.

SECTION II – FINDINGS AND QUESTIONED COSTS RELATED TO MAJOR FEDERAL AWARD PROGRAMS

Finding 08-03 Documentation of Expenditures of Federal Awards

Current Year Status – Repeat Finding; See Schedule of Findings and Questioned Costs Finding 09-02.

Finding 08-04 Purchasing and Procurement

Current Year Status – Resolved.

Finding 08-05 Net Assets

Current Year Status – Resolved.

SECTION III – MANAGEMENT LETTER

N/A

KIPP NEW ORLEANS, INC.
CORRECTIVE ACTION PLAN FOR CURRENT
YEAR AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2009

Finding 09-01 Documentation of Expenses

Recommendation:

Management should adhere to all stipulated policies and procedures.

Corrective Action:

Existing policies, procedures and guidelines will be evaluated, including the Procurement Policy and Credit Card Use Guidelines, by the KIPP management team, to ensure that all needed policies and procedures are in place to assure appropriate documentation is produced to support all school expenditures.

Implementation Date:

Immediately.

Contact:

Marsha Pemble, Director of Finance, (504) 373-6269

KIPP NEW ORLEANS, INC.
CORRECTIVE ACTION PLAN FOR CURRENT
YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2009

Finding 09-02 Documentation of Expenditures of Federal Awards

Recommendation:

Management should adhere to all stipulated policies and procedures. KIPP should consider hiring or internally training an employee to perform grant administration and compliance with federal award programs on a full time basis.

Corrective Action:

In order to better perform grant administration and monitor compliance with provisions of federal and state grants federal grants, the management of KIPP has recently established a full-time Grants Manager position in the regional School Support Center. The Grants Manager will oversee the writing of grant applications, management of expenditures of grant awards, and administration of all federal and state grants awarded to KIPP schools.

The Grants Manager will be supported in the management and control of supporting documents and in other grants administration duties by the regional finance office personnel. Each school's Business Operations Manager has a vital role in the management of expenditures of federal awards, and the Grants Manager will work closely with them, providing guidelines and individual training on documenting services, receiving goods, and processing supporting documentation for all grant expenditures.

Existing policies, procedures and guidelines will be evaluated, including the Procurement Policy and Credit Card Use Guidelines, by the KIPP management team, to ensure that all needed policies and procedures are in place to assure appropriate documentation is produced to support all school expenditures.

Implementation Date:

Immediately.

Contact:

Marsha Pemble, Director of Finance, (504) 373-6269